



Pre Budget Submission to the Federal Government

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Financial Counselling Australia (FCA) is
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About Financial Counselling

Financial counsellors assist consumers in financial difficulty. They provide information, support and advocacy to help consumers deal with their immediate financial situation and minimise the risk of future financial problems. The majority of financial counsellors work in community organisations, although some are employed by government. Their services are free, confidential and independent.

Financial Counselling Australia

FCA is the peak body for financial counsellors in Australia. FCA's member groups are the eight State and Territory financial counselling associations.

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FINANCIAL COUNSELLING AUSTRALIA

Pre-Budget Submission

1 BUDGET PRIORITY

Financial counsellors help people in financial difficulty. We have a deep understanding of the impact on individuals and families when they are unable to pay their debts or put food on the table. Our budget submission is informed by these experiences.

At a broad level, our submission urges the Government to:

- reverse the harsh measures in the May 2014 budget affecting low income and vulnerable Australians;
- reinstate \$270 million in funding cuts to the community sector.

In relation to financial counselling, we submit that:

- funding cuts to the financial counselling sector in the 2014-15 budget be reversed;
- funding for financial counselling services in the Northern Territory and outback Western Australia should be continued in the longer term. At present, some services have funding only until 30th June 2015 (those funded under income management) with the remaining services funded until 31st December 2015;
- funding for FCA as the peak body should be at a level that allows the organisation to adequately fulfil its role in supporting front line services. Funding should be extended beyond June 2015. Funding should be at a level that allows the organisation to safely sign a commercial lease.

In relation to funding for the financial counselling sector, the submission also makes the case for a **completely different funding mechanism: an industry levy**. This is how the equivalent services in the United Kingdom are funded. A levy could apply to financial services providers, telecommunications companies, utility providers, insurance companies and debt collectors. These industries all benefit from financial counselling expertise in assisting their customers.

2 BUDGET AND THE COMMUNITY SECTOR

Financial Counselling Australia (FCA) is a member of the peak body for the community sector, the Australian Council of Social Service (ACOSS). ACOSS has provided a comprehensive and considered pre-budget submission and we support the analysis contained in this.

ACOSS sets out a number of ways to address the revenue challenges facing the Government, including tax reform and better targeting of expenditure. We reiterate their call for “a fairer path which asks members of our community to contribute to the task of Budget repair according to their capacity”.

We are very concerned about the impact of the cuts to the community sector in the May 2014 budget and what this will mean for Australians who need assistance because they are homeless, do not have enough food or cannot pay their bills or other debts. Where will already stretched services send the clients they cannot assist? These people will be sent away without help.

Cuts to frontline agencies are counterproductive. What the government “saves” at one level, it pays for in other ways, for example when families fracture, or people become ill because of the stress or when children live in poverty and do not reach their full potential. Financial counselling is a cost-effective intervention compared to the costs of providing health, prison or social housing services.

We are very concerned about a number of the measures in the 2014 budget that, while they have not yet passed the Senate, are still government policy. These include the six-month waiting period for people under 30 years of age to access NewStart, limitations on access to Family Tax Benefit Part B, the indexation of pensions to CPI not wages and the increase in the eligibility age for NewStart from 22 years to 24 years.

We recommend that the budget:

- reinstate \$270 million in funding cuts to the community sector
- reverse the harsh measures in the May 2014 budget affecting low income and vulnerable Australians.

3 BUDGET AND FINANCIAL COUNSELLING

Appendix 1 includes information about financial counselling that provides background to this submission, explaining:

- the extent of financial stress in the community;
- how financial counselling is embedded in the service delivery system;
- the impact of financial counseling and the public benefits from it.

3.1 Funding for the Financial Counselling Sector

The Commonwealth Financial Counselling Program began in 1990 and has now been existence for nearly 25 years. We estimated that total funding for the sector was approximately \$20 million per annum in 2014.

In June 2014, the Federal Government asked the 108 agencies they funded to re-tender. We understand that the total amount of funding available represented a cut. It has been difficult for FCA to measure this accurately however because of a lack of data.

At the date of this submission, the final outcome of the tender process is not known. We are very concerned that some geographic areas will see a reduction in services. As set out in Appendix 1, demand for financial counselling exceeds supply. Any cuts or reductions in service will have flow on effects with more people being turned away without financial counselling, or not being able to access a financial counsellor in their geographic region.

We recommend that the budget reinstate the full amount of funding for the financial counselling sector to previous levels.

The June 2014 tender process included funding allocations in 2015-16 for Western Australia – Outback (\$554,025) and the Northern Territory (\$1,367,715). In December 2014, services in these areas were advised that the Government had decided not to continue with this funding, but that their contracts would be extended until 31st December 2015.

Separately, about a half of the financial counselling services in these areas are funded as part of the Government's income management initiative.

Funding for these services expires at 30th June 2015 - continuation or otherwise of this funding will be a decision for the May 2015 budget, just a few weeks before the funding contracts expire.

We understand that the Government is concerned about multiple funding arrangements between the generalist and income management sources. Assuming the May 2015 budget continues funding for income management, the Government would then move to streamline the overall funding. Our concern is that any changes may result in a reduction in overall funding. These particular areas of Australia are amongst some of the most disadvantaged and overall funding needs to be maintained.

We recommend that the funding for all financial counselling services in the Northern Territory and outback Western Australia should be continued in the longer term and there should be no overall reduction in the total amount of funding.

3.3 An Industry Levy is a Viable, Alternative Funding Mechanism

At present, funding for financial counselling is through the normal budget appropriation processes and then a grant-making function to community agencies. An alternative and viable funding mechanism would be through a levy on the industries that benefit when financial counsellors assist their customers to overcome financial difficulty: financial services providers, telecommunications companies, utility companies, insurance companies and the debt collection industry.

The model for such an approach is the United Kingdom (UK), where financial counselling and financial literacy initiatives¹ are funded through a levy on financial services providers. The levy is collected by the Financial Conduct Authority (the equivalent of ASIC) and also funds that organisation. The levy funding debt advice is administered by the Money Advice Service. In 2013-14, MAS allocated more than £30 million pounds to community-based debt advice services.²

The benefits of a model such as this are the direct link between the funding source (the financial services industry) and the use of the funding (customers of that industry in financial difficulty). The gap in the UK model however is that funding is only provided by financial services providers,

¹ The more common terms in the UK are “debt advice and financial capability” rather than “financial counselling and financial literacy” but they essentially mean the same thing.

² Money Advice Service, ‘Annual Review, Directors Report and Financial Statements for the year ended 31 March 2014’, page 37.

and not other industries (such as utilities and telecommunications) that also have customers in financial hardship, that would benefit from debt advice. Another clear benefit of this funding model is that it would also provide a more consistent and reliable funding source for financial counselling.

The final report of the Financial Systems Inquiry, recently provided to the Government, recommended an industry-funding model for the Australian Securities and Investments Commission.³ We note again that the UK levy funds not just regulatory activity, but also debt advice and financial literacy – a powerful combination. The UK model also supports struggling small business owners with debt advice.

We recommend that the Government investigate the option of funding financial counselling through a levy on financial services providers, telecommunications companies, utility companies, insurance companies and the debt collection industry.

3.4 Funding for FCA

The Government invests close to \$20 million in providing financial counselling in the community. FCA's core role is to support the front line agencies and the financial counsellors delivering these services. We help to ensure that the Government's investment is protected and that services are of the highest quality. FCA's current funding however is not enough to adequately undertake this job – and the funding is only confirmed until 30th June 2015.

The situation has been made more critical by the withdrawal of funding from four separate organisations that had previously provided support to financial counselling agencies and financial counsellors. This now leaves a very big gap if financial counsellors are not adequately trained or do not have access to up-to-date information and resources to help them in their jobs.

FCA's role in supporting front line services includes:

- Coordinating the national financial counselling helpline (1800 007 007)
 - *Example:* developing common policies and procedures

³ Financial System Inquiry, Final Report, November 2014, Recommendation 29, p 250.

- Managing the consumer-facing website debtselphelp.org – this site acts as a one-stop shop for people in financial difficulty and is a gateway to financial counselling
 - *Example:* keeping over 50 fact sheets up to date, reviewing the debtsselfhelp tool
- Acting as a communications hub, disseminating information to financial counsellors across Australia and between industry, government and the financial counselling sector.
 - *Example:* industry and government assistance available after natural disasters
- Working with industry to improve responses to financial hardship
 - *Example:* Pilot of the National Hardship Register with the debt collection industry
- Developing training and other resources for the financial counselling sector
 - *Example:* online training module on the new credit reporting system
 - *Example:* maintenance of a password-protected website for financial counsellors that has resources, such as standard letters, that help them to do their jobs more effectively
- Developing of common policies for the financial counselling sector
 - *Example:* membership and accreditation standards
- Raising the profile of financial counselling and financial literacy
 - *Example:* informed comment in the media on issues relating to consumers in financial difficulty
- Contributing to policy development
 - *Example:* Input to the ASIC/ACCC debt collection guidelines, membership of consultative bodies
 - *Example:* Working with the major banks, Beyondblue, Mental Health First Aid Australia and the financial counselling sector to develop National Mental Health Guidelines for use by the banking industry and our sector.
- Supporting eight State and Territory financial counselling associations
 - *Example:* providing administrative support and running national planning forums

- Holding an annual conference that brings the financial counselling sector together to share knowledge and ideas, undertake training and planning
 - *Example:* over 500 registrations at the 2014 conference, organisation of separate meetings pre-conference for financial counselling agencies, for registered training organisations
- Supporting financial counsellors and financial capability workers that work with Aboriginal and Torres Strait Islander clients, many of whom are in rural and remote Australia
 - *Example:* Management of an email discussion group to share information and resources
 - *Example:* Assistance in organising an annual Forum for this group

We recommend that funding for FCA as the peak body should be at a level that allows the organisation to adequately fulfil its role in supporting front-line services. Funding should be extended beyond June 2015. Funding should be for a duration that allows the organisation to safely sign a commercial lease.

APPENDIX 1 – BACKGROUND INFORMATION

Financial Difficulty: How Big is the Problem?

Causes of Financial Difficulty

Financial counsellors report that the most common cause of financial difficulty is a change of circumstances in a person's life: unemployment, illness or relationship breakdown. Many clients are also on very low incomes, such as the NewStart allowance and simply find it hard to make ends meet. Small business failure, exploitation or poor advice (such as from a financial planner) may also be factors that lead to financial difficulty for some clients.

Financial counsellors observe that financial difficulty can affect just about everyone. This is reinforced by data from the Australian Bureau of Statistics (ABS) in the General Social Survey.⁴ One of the factors measured in the survey is the prevalence in the population of "personal stressors". In the most recent survey (2009-10), over 60% of the adult population had experienced at least one personal stressor. Noting that some people will experience more than one stressor - 23% of the adult population had experienced a serious illness, 11% had experienced a divorce or separation, 13% had experienced a mental illness, 7% had experienced a serious disability and 15% had been unable to get a job.

Who is Doing it Tough? ABS Data

Some people can manage through a financial crisis because of the support of family and friends, or because they have a financial buffer, such as insurance or savings. They may need additional time or assistance to access support or additional resources, but can ultimately overcome any financial problems. There are however large groups of Australians for whom financial difficulty is ongoing. To use a vernacular Australian term – they are "doing it tough".

The ABS General Social Survey⁵ provides an insight into exactly which groups in Australia are most affected by financial stress. Perhaps not surprisingly, the survey shows that lone parent households with dependent children experience the highest levels of financial stress. For example, 41% of lone parent households could not raise \$2,000 for something important. This contrasted with the 11% of couple households who reported the same situation.

⁴ ABS, 4159.0 General Social Survey: Summary Results, 2010 (released 30/09/2011).

⁵ ABS, 4159.0 General Social Survey: Summary Results, 2010 (released 30/09/2011), Table 45.3 Household financial stress indicators, by selected household composition categories, proportion.

Although some high income households reported financial stressors, not surprisingly low income households in the lowest quintile had the most financial stress. For example these households were more likely to report that they had experienced cash flow problems,⁶ such as not paying a bill on time, going without a meal, or not being able to heat their home. They were also more likely to have engaged in a dissaving action⁷ such as increasing credit card debt.

Sole parent families however were more likely to follow a budget (58.5%) compared to couple families (49.4%), but the sole parent families were much less able to take other “financial resilience actions” such as regular saving, making voluntary superannuation contributions or paying more than the minimum required on credit card repayments.

Other Relevant Data

Other relevant data sources include research from:

- the Australian Council of Social Service (ACOSS) that estimated that 2.2 million people (12.8% of the population) lived below the poverty line;⁸
- the Australian Social Inclusion Board that estimated that 2.5 million people (13% of the population) live in households of high financial stress;⁹
- credit reporting bureau, Veda which says that about one in five people are struggling to make debt repayments. Disturbingly, about a quarter of this group say they have no option but to borrow to meet expenses.¹⁰

There are many other ways to view financial hardship. The ACOSS research cited above notes that poverty cannot be defined with a single profile. For example, while the ABS data cited above show that sole parent families are more likely to experience financial stress compared with two parent families, there are numerically many more two parent families in financial stress, given that two parent families are more common than one parent families.

⁶ Examples in the survey were: being unable to pay electricity or gas or telephone bills on time; unable to pay mortgage or rent payments on time; unable to pay car registration or insurance on time; unable to make the minimum payment on a credit card; pawned or sold something, went without meals, unable to heat home, sought assistance from friends, family or welfare/community agencies.

⁷ Examples include: reducing home loan repayments; drawing on savings, increasing the balance on a credit card by \$1,000 or more, taking out a personal loan, selling assets.

⁸ Australian Council of Social Service, “Poverty in Australia”, Paper No 194, 2012.

⁹ Australian Social Inclusion Board, “Social Inclusion in Australia: How Australia is Faring”, 2010.

¹⁰ Veda Advantage, Galaxy Research, 2012.

The risk of poverty can be gauged by looking at the income source of a household. People whose main source of income is social security benefits are approximately three times as likely to be at risk of poverty compared to “all people”¹¹ based on poverty being 50% of median income. When analysed by gender, women face a significantly higher risk of poverty than men, with 53.8% of females and 46.2% of men being below the poverty line. This reflects women receiving lower wages and employment opportunities, and being more likely to be in unpaid caring roles.¹² People born in non-English speaking countries are also at greater risk of poverty than people born in Australia.¹³

Although those on lower incomes are at greater risk of poverty and financial stress, those on higher incomes are not immune from financial difficulty. Research from The Australia Institute found that while low income earners were, not surprisingly, more likely to experience financial difficulty in the previous 12 months, 15% of high income households also did so.¹⁴

These findings are also consistent with a segmentation analysis undertaken for the Department of Social Services¹⁵ based on the ANZ Survey of Adult Financial Literacy.¹⁶ This analysis divided the Australian population into five groups based on money management attitudes and behaviours. Group 5 (12.5% of the population) was the most financial vulnerable and had low levels of income and assets, relatively low financial literacy and relatively high levels of debt. Group 1 however (18.2% of the population), despite high levels of income and assets, was also struggling with high levels of debt. Although this group had above average financial literacy, they were also above average users of pawnbrokers, payday lenders and debt rescue companies.

¹¹ Australian Council of Social Service, August 2011, ‘[Poverty in Australia 2012](#)’, 26.

¹² Australian Council of Social Service, August 2011, ‘[Poverty in Australia 2012](#)’, 15.

¹³ Australian Council of Social Service, August 2011, ‘[Poverty in Australia 2012](#)’, 21.

¹⁴ The Australia Institute, *Evidence versus Emotion: How do we really make financial decisions*, December 2010.

¹⁵ Previously the Department of Families, Housing, Community Services and Indigenous Affairs when the research was undertaken.

¹⁶ Australian Government, Department of Families, Housing, Community Services and Indigenous Affairs, Occasional Paper No. 36, *Approaches to Personal Money Management: A population segmentation based on data from the ANZ Survey of Adult Financial Literacy in Australia (2008)*, The Social Research Centre and Data Analysis Australia, 2011.

Financial Counselling is embedded in the service delivery system

People in financial difficulty can contact a financial counsellor by ringing the national phone number 1800 007 007 or their nearest face-to-face service. There is a “Find a Financial Counsellor” map on the ASIC MoneySmart website as well as the FCA website.

The national phone financial counselling helpline is a relatively new service and was established just a few years ago. The service has enabled financial counselling to reach more people in financial difficulty and at an earlier stage and has dramatically increased access. Phone financial counselling and face-to-face financial counselling together provide an integrated service delivery model.

Financial counselling is a vital part of the service delivery system. FCA’s 2014 report “Click Here: Who is Referring to Financial Counselling Services” found that All of the major banks, a number of government departments, finance industry peak bodies and dispute resolution schemes include information on their websites explaining how people can access financial counselling. The national telephone financial counselling helpline – 1800 007 007 - was the primary point of access. Examples of organisations with information and contact details for financial counselling on their websites include:

- MoneySmart – ASIC’s financial literacy website, which includes a “Find a Financial Counsellor” search tool;
- www.disasterassist.gov.au, the Government’s portal to help people affected by natural disasters;
- Australian Financial Security Authority – AFSA administers personal insolvencies;
- Australian Bankers Association – www.doingittough.info The ABA is the banking industry peak body. This website is targeted toward consumers;
- Insurance Council of Australia – www.understandinsurance.com.au The ICA is the insurance industry peak body. This website is targeted toward consumers;
- Financial Ombudsman Service, Telecommunications Industry Ombudsman and the various energy and water ombudsman schemes.

The national phone number 1800 007 007 is a mandatory inclusion on a number of prescribed notices under the National Credit Code.¹⁷

¹⁷ For example, warning notices that must be displayed by payday lenders on websites and in shopfronts, credit default notices.

Financial counsellors also work proactively with industry to improve responses to consumers who are in financial hardship or who are vulnerable. These industries include banks, utilities, and telcos. Financial counsellors also provide significant input at times to government and regulator advisory bodies, such as the ACCC, ASIC, the AER and State agencies.

The importance of free and independent financial counselling was recognised by the Parliament in 2013, with an amendment to the *National Consumer Credit Protection Act 2009* providing legislative protection to the term “financial counsellor” and “financial counselling”.¹⁸

¹⁸ Section 160C of the NCCP Act.

What is the Impact of Financial Counselling? What is the public benefit?

Financial counselling has positive benefits for clients, for industry and for the broader community.

Adelaide University 2014

A cost-benefit analysis of financial counselling services funded by the Wyatt Trust in South Australia, has found that every \$1 invested provides a \$5 return.

The research “Paying it Forward” was undertaken by the Australian Workplace Innovation and Social Research Centre at Adelaide University and was launched by well-known financial commentator, Paul Clitheroe.

The report showed that:

- 46% of clients were on incomes of less than \$20,000 per annum;
- 82% of clients had experienced at least one financial crisis leading, most commonly related to credit card or store card debts (42%) and/or utility debts (40 %). 55% had 2 or more financial crises.
- 86% of clients had experienced at least one personal crisis in the last year, with one-third of these related to housing issues (31 %). 55% had at least two personal crises. Personal crises or those of family members can increase the impact of financial issues.

As the Adelaide University researchers note, the cost-benefit analysis did not include other benefits which are more difficult to quantify, such as improvements in financial literacy, stabilised housing or avoidance of legal action. In other words, the \$1:\$5 cost benefit is an understated and conservative measure of the benefit of financial counselling. For example, we know that financial counselling clients often report improvements in health. The average cost of a general hospital admission in Australia is \$5,205 per day. Investing in financial counselling is clearly cost-effective.

Swinburne University Research 2012

In 2012, Swinburne University surveyed 225 clients who had accessed the Salvation Army’s MoneyCare service.¹⁹ Survey respondents indicated that as a result of financial counselling:

¹⁹ Dr Nicola Brackertz, “I Wish I’d Known Sooner” The Impact of Financial Counselling on Debt Resolution and Personal Wellbeing”, Swinburne University, 2012.

- 66% said their financial difficulties had been resolved
- 75% said they were better able to prioritise debt
- 74% said the advice had helped them avoid legal action
- 53% had avoided bankruptcy
- 74% were better able to budget
- 73% were able to access creditors' hardship programs

The research also demonstrated a link between early access to financial counselling and resolution of financial difficulties - people who sought financial counselling sooner were statistically more likely to report that their financial difficulties had been resolved (72%).

Financial counselling also provided broader social benefits:

- 51% of respondents indicated that their housing situation was more secure; and
- 45% of respondents indicated that their relationships with family and friends and their children (46%) had improved.

There are clearly important public benefits from financial counselling. Financial difficulty does not occur in isolation and affects physical and mental health, places strains on relationships (including sometimes exacerbating family violence) and can impact seriously on children. If financial difficulties can be resolved there are flow-on effects in the health and housing sectors with cost savings from fewer presentations, reduced housing stress and so on.

Financial counsellors also play a strong role in increasing financial literacy, helping clients to put in place strategies that build financial resilience in the future.